

**Consolidated Rural Water District No. 1
Montgomery County, Kansas**

Audit Report

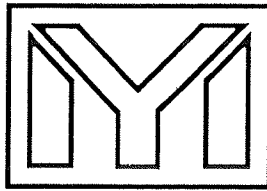
December 31, 2011

THE CONSOLIDATED RURAL WATER DISTRICT NO. 1
MONTGOMERY COUNTY, KANSAS

December 31, 2011

TABLE OF CONTENTS

	<u>Page Number</u>
<u>INTRODUCTORY SECTION</u>	
Title Page	
Table of Contents	
<u>FINANCIAL SECTION</u>	
Independent Auditor's Report	1 – 2
STATEMENT 1	
Summary of Cash Receipts, Expenditures, and Unencumbered Cash For the Year Ended December 31, 2011	3
STATEMENT 2	
Statement of Cash Receipts and Expenditures - For the Year Ended December 31, 2011	
WATER OPERATIONS FUND	4
NOTES TO THE FINANCIAL STATEMENTS	5 – 8



YERKES & MICHELS, CPA, LLC

CERTIFIED PUBLIC ACCOUNTANTS

John D. Carroll, CPA
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American Institute of Certified Public Accountants
Kansas Society of Certified Public Accountants
An Independent C.P.A. Firm

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Consolidated Rural Water District No. 1
Montgomery County, Kansas
P.O. Box 328
Havana, Kansas 67347

We have audited the accompanying regulatory basis financial statements of the individual fund of the Consolidated Rural Water District No. 1, Montgomery County, Kansas, as of and for the year ended December 31, 2011, as listed in the table of contents. These regulatory basis financial statements are the responsibility of the Water District's management. Our responsibility is to express an opinion on these regulatory basis financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the *Kansas Municipal Audit Guide*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1B, the Consolidated Rural Water District No. 1, Montgomery County, Kansas, prepared these regulatory basis financial statements using accounting practices prescribed by the State of Kansas to demonstrate compliance with the cash basis and budget laws of the State of Kansas, which practices differ from accounting principles generally accepted in the United States of America. The effects the regulatory basis financial statements of the differences between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the regulatory basis financial statements referred to in the first paragraph do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the individual funds of the Consolidated Rural Water District No. 1, Montgomery County, Kansas, as of December 31, 2011, the changes in its financial position, or the cash flows of its proprietary fund for the year then ended. Further, the Water District has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Also, in our opinion, the regulatory basis financial statements referred to in the first paragraph present fairly, in all material respects, the cash and unencumbered cash balance of the individual fund of the Consolidated Rural Water District No. 1, Montgomery County, Kansas, as of December 31, 2011, and the respective cash receipts and expenditures for that fund for the year then ended, on the basis of accounting described in Note 1B.


YERKES & MICHELS, CPA, LLC

February 21, 2013

CONSOLIDATED WATER DISTRICT NO. 1
MONTGOMERY COUNTY, KANSAS
SUMMARY OF CASH RECEIPTS, EXPENDITURES
AND UNENCUMBERED CASH

For the Year Ended December 31, 2011

	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Outstanding Encumbrances and Accounts Payable	Ending Cash Balance	
Water Operations Fund	\$ 375,880.51	\$ -	\$ 437,434.01	\$ 477,906.42	\$ 335,408.10	\$ 38,504.86	\$ 373,912.96	Water Operations Fund
<u>TOTAL PRIMARY GOVERNMENT</u>	<u>\$ 375,880.51</u>	<u>\$ -</u>	<u>\$ 437,434.01</u>	<u>\$ 477,906.42</u>	<u>\$ 335,408.10</u>	<u>\$ 38,504.86</u>	<u>\$ 373,912.96</u>	<u>TOTAL PRIMARY GOVERNMENT</u>

PROPRIETARY TYPE FUNDS

COMPOSITION OF CASH-Primary Government

Arvest Bank:	
Account No. 51888	\$ 86,560.99
Account No. 104043	60,263.68
Great Plains Federal Credit Union:	
Account No. 201518 - Share Account	1,211.02
Account No. 201518 - ID 51	100,093.42
Account No. 201518 - ID 52	100,093.42
First Federal Savings and Loan:	
Account No. 01-56023024	25,690.43
<u>TOTAL PRIMARY GOVERNMENT</u>	<u>\$ 373,912.96</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

CONSOLIDATED RURAL WATER DISTRICT NO. 1
MONTGOMERY COUNTY, KANSAS
STATEMENT OF CASH RECEIPTS AND EXPENDITURES

WATER OPERATIONS FUND

For the Year Ended December 31, 2011

	<u>Actual</u>
CASH RECEIPTS	
Water Sales and Late Charges	\$ 336,222.62
Assessments	69,613.39
New Installations	8,025.15
Connect Charges	2,625.50
Interest Earned	5,966.88
Dividends Earned	5,909.20
Reimbursed Expenses	80.00
Contract Sale	1,521.27
Note Pmt. Late Fees	220.00
Sale of 2006 Truck	7,250.00
	<hr/>
TOTAL CASH RECEIPTS	\$ 437,434.01
EXPENDITURES	
Salaries	\$ 157,144.70
Water Purchased	171,473.48
Line Maintenance and Repair	19,391.82
Utilities and Telephone	21,960.40
Insurance	15,940.00
Contract Labor	20,127.50
Truck Expense	14,389.94
Taxes and Permits	12,486.36
Office Expense	4,664.47
Professional Fees	794.37
Kansas Rural Water Association	716.87
Rent	25.00
Travel	768.00
Vehicles & Equipment	34,972.18
Miscellaneous	3,051.33
	<hr/>
TOTAL EXPENDITURES	\$ 477,906.42
RECEIPTS OVER (UNDER)	
EXPENDITURES	\$ (40,472.41)
UNENCUMBERED CASH, BEGINNING	<hr/> 375,880.51
UNENCUMBERED CASH, ENDING	<hr/> <hr/> \$ 335,408.10

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

CONSOLIDATED RURAL WATER DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1A. FINANCIAL REPORTING ENTITY

The Consolidated Rural Water District No. 1, Montgomery County, Kansas, is a quasi-municipality governed by a five member Board of Directors. The members (customers) of the water district appoint the Board of Directors. In evaluating how to define the government for financial reporting purposes, management has considered all potential component units. The Water District's purpose is to purchase and sell water to rural patrons.

1B. BASIS OF PRESENTATION AND BASIS OF ACCOUNTING

The *Regulatory Basis of Accounting*, as used in the preparation of these regulatory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances.

Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure would be charged in the fund from which the transfer is made.

The Water District has passed a resolution that is in compliance with K.S.A. 75-1120a(c) waiving the requirement for application of generally accepted accounting principles and allowing the District to use the regulatory basis of accounting.

1C. DEPARTURE FROM ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA

The basis of accounting described in Note 1B above results in a financial statement presentation which shows cash receipts, cash disbursements, cash and unencumbered cash balances, and expenditures. Balance sheets that would have shown non-cash assets such as receivables, inventories, and prepaid expense, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balance are not presented. Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year-end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with generally accepted accounting principles. Capital assets that account for the land, buildings, and equipment owned by the Water District are not presented in the financial statements. Also, long-term debt such as general obligation bonds, revenue bonds, capital leases, temporary notes, and compensated absences are not presented in the financial statements.

CONSOLIDATED RURAL WATER DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

1D. FUNDS

A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

A legal operating budget is not required for the Water District. Spending in the Water District's fund is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

The following type of fund comprises the financial activities of the Consolidated Rural Water District No. 1, Montgomery County, Kansas, for the year 2011:

PROPRIETARY FUND

Enterprise Fund – to account for activities in which a fee is charged to an external use for goods or services.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY COMPLIANCE WITH FINANCE-RELATED LEGAL AND CONTRACTUAL MATTERS

Management is not aware of any statutory, finance related or contractual violations applicable to the 2011 year.

NOTE 3 – DEPOSITS AND INVESTMENTS

As of December 31, 2011, the Water District had no investments.

K.S.A. 9-1401 establishes the depositories which may be used by the Water District. The statute requires banks eligible to hold the District's funds have a main or branch bank in the county in which the District is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The District has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the Water District's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. Government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas municipal investment pool fund.

CONSOLIDATED RURAL WATER DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 3 - DEPOSITS AND INVESTMENTS (Cont'd.)

Concentration of credit risk. State statutes place no limit on the amount the Water District may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial credit risk – deposits. Custodial credit risk is the risk that in the event of a bank failure, the Water District's deposits may not be returned to it. State statutes require the District's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. As of December 31, 2011, all deposits were legally secured.

At December 31, 2011 the carrying amount of the Water District's deposits was \$373,912.96. The bank balance was \$376,010.89. The difference between the carrying amount and the bank balance is outstanding checks and deposits in transit. The bank balance was held by three banks. All bank deposits were covered by federal depository insurance at 12/31/11.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the Water District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

NOTE 4 – COMPENSATED ABSENCES

Vacation and sick leave are granted only on an informal basis, with no written policy developed.

The Manager of operations is informally granted 4 weeks of paid vacation each year. The plant operator is given vacation on request when approved by the Manager. They are the only full time employees of the Water District.

The Manager of operations is informally granted sick leave as needed.

The liability for accrued vacation and sick pay is not reflected on the financial statements. Neither the actual or estimated amount of the liability was available at December 31, 2011. The cost of vacation and sick pay are recognized as expenditures when paid.

NOTE 5 - RISK MANAGEMENT

The Water District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. Settlements of claims have not exceeded coverage during the past three fiscal years.

CONSOLIDATED RURAL WATER DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 6 – USE OF ESTIMATES

The preparation of statutory basis financial statements requires management to make estimates and assumptions that affect the reported amounts of expenditures during the audit period, encumbrances outstanding, fair value of investments, and disclosure of contingencies at the end of the audit period. Actual results could differ from the estimates.

NOTE 7 – SIGNIFICANT DEFICIENCY

We noted that, due to the small number of staff, a proper segregation of duties is not attainable.

NOTE 8 – ECONOMIC DEPENDENCY

Prior to 2010, the Water District was dependent upon two cities, Independence and Coffeyville Kansas, to supply them with all of their water. In 2010, the District was able to connect to Public Wholesale Water Supply District No. 20 as another source of water.

NOTE 9 – SUBSEQUENT EVENTS

During 2010 it was discovered that there was low water pressure south of Tyro. The District hired the engineering firm of Shafer, Kline & Warren to provide a solution for the problem. This cost (\$6,500.00) was encumbered at 12/31/2010. This project was completed in 2012 with a pump installed at a cost of \$8,625.00, which does not include labor costs as the District installed the new pump.

During 2012 a new truck was purchased for Clark at a price of \$26,400, because his old truck had high mileage. Clark's old truck was sold for \$10,000.